



# EMPLOYER

California Public Employees' Retirement System

# NEWS

## An Investment Outlook from Mark Anson, Chief Investment Officer

Back in January of this year I presented an investment outlook for the CalPERS Board of Administration at their January Board Off-site. In general, I was bullish on the U.S. stock and corporate bond market, slightly less bullish for Europe and the UK, and distinctly bearish on Japan. Six months into 2003, my outlook has become a little more bullish for the U.S., still bearish for Japan, and less bullish for Europe.

Let's begin with the U.S. In January, I predicted returns of 9–10 percent for the U.S. stock market. This was based on a forecast for U.S. GDP of 2.5 percent real growth for the year 2003. Positives for U.S. growth were a quick resolution to the Iraq War, tax cuts from the federal government, and monetary easing from Alan Greenspan and his team at the Federal Reserve System.

Drags on our economy came from a high current account deficit (essentially our checking account with other countries where we are overdrawn), a very low level of factory use, and an unemployment rate that has crept above 6 percent. Also, last year, we saw just about every type of corporate accounting

and governance shenanigans; enough to last us a lifetime.

It was the last factor, the lack of faith in U.S. corporations that hurt the U.S. stock market the most. However, with the passing of the Sarbanes-Oxley Bill that strengthened corporate governance principles, investor confidence returned to the U.S. stock market. In addition, we saw growth in corporate profits in the first quarter of 2003 for the first time in over 6 quarters. These two factors, profit growth plus renewed investor confidence, have helped propel the S&P 500 Stock Market Index to a return of 12 percent for the first 6 months of 2003 — above my forecast for the full year.

So where do we go from here? It seems reasonable to expect a return in the U.S. stock market in the range of 10 to 15 percent for the year 2003. I caution investors not to get caught up in the strong tailwind that is now fanning the U.S. stock market. Our economy is growing, but it is not the high GDP growth of the late 1990s. I expect that the U.S. economy will grow in the 2.5 to 3.5 percent range this year. Corporate profit growth should be even



*Mark Anson*  
*Chief Investment Officer*

stronger because corporations have been cutting expenses to the bone for the past three years.

With respect to Europe, I see some signs of trouble. The GDP of Germany declined 0.2 percent in the first quarter, Italy also declined 0.2 percent in the first quarter, and the Netherlands declined 0.1 percent. Of the major European economies, only France showed any signs of growth in the first quarter of 2003, with a positive GDP of 0.2 percent. Lack of growth is a troubling sign, particularly since unemployment in Europe is 8.5 percent and likely to go higher. Therefore, I expect

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## Wage and Contribution Data Diskettes

Thousands of diskettes are submitted to CalPERS each month containing wage and contribution data for public agency, school and State employees. This data is processed and used to post service credit and financial data to member accounts. Once processed, CalPERS returns the diskettes to you for reuse as a courtesy and cost-saving effort. However, due to the increased concerns of identity theft, CalPERS felt it was in everyone's best interest to discontinue the practice of returning the diskettes. In addition, CalPERS has helped to eliminate

your expenses for sending in wage and contribution data by offering the Automated Communications Exchange System (ACES). ACES allows you to transmit member data via the Internet in a secure environment. By using ACES, you can be sure that CalPERS receives the data safely and without the costs of purchasing diskettes and postage. For information on signing up for ACES Payroll, you can visit our Web site at [www.calpers.ca.gov/ACES](http://www.calpers.ca.gov/ACES) or contact our Employer Customer Contact Center at (888) CalPERS (225-7377).

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that Euroland (all the Continental European countries) will grow in the 1 to 1.5 percent range for 2003.

The UK fares better than the rest of Europe, but not as well as the U.S. Recently, the UK

monetary authority predicted positive GDP growth of about 2 percent for 2003. The UK has lower unemployment than the U.S. with only slightly greater inflation. Still, there is weakness in their manufacturing sector, it is now at 1991 levels. In sum, while Europe and the UK will generate positive stock market returns this year, I expect that the returns in these markets will be less than the U.S. The only benefit is the weak U.S. dollar compared to the stronger Euro and British Pound.

Japan remains where I last left it in January. Fiscal policy and monetary policy have not gotten Japan's economy back on its feet. Short term rates are at zero in Japan — there is no cost to borrowing short term money. Yet bank lending has contracted at the rate of 3 percent per year for the last six years. Why? Because it is estimated that Japanese banks have approximately \$450 billion of non-performing loans on their balance sheet. Until this problem is cleaned up, it will be difficult for Japan to generate positive GDP growth. Surprisingly, the Japanese stock market has rallied some 15 percent this year. The only explanation I have is that the Japanese market has been beaten up for so long (13 years), that a small rally is not out of the question.

Last, this year we have found good value in corporate bonds, both high yield and investment grade. Last year, corporate bonds suffered from the same malaise as the equity market — a lack of investor confidence in the accounting information presented by corporate America. Corporate accounting miscues, fraud, and excessive executive pay combined to erode investors' confidence regarding the management of public corporations. This phenomenon impacted not only stocks, but corporate bonds as well. Consequently, corporate bonds moved in tandem with domestic stocks.

Now that investor confidence has returned to the market and corporate profits have begun to recover, corporate bonds are enjoying the same appreciation as U.S. stocks. We expect U.S. stocks to outperform U.S. bonds this year, but U.S. bonds will have less risk. Looking forward to 2004, we see growth for the U.S. economy picking up steam, with real growth next year exceeding that of 2003. We also see Europe on the road to stronger economic recovery, while with Japan, we will sit and wait for strong economic reform before a full recovery begins. ■

## EMPLOYER N E W S

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## ACES Update

On July 13, 2003, the Automated Communications Exchange System's (ACES) version 3.2 was released. This new version provides numerous enhancements to improve your experience when conducting business on ACES. For the best system performance, upgrade your Internet Web Browser (at no cost) to Microsoft Internet Explorer 6.028 or Netscape 7.0. For help, contact your internal system administrator or visit [www.microsoft.com](http://www.microsoft.com) or [www.netscape.com](http://www.netscape.com).

If you are an ACES user and have not received the ACES email notifications in the last three months, please have your ACE Account Administrator verify your email address in the *User Account Maintenance* folder. The ACES e-mail notifications include important

information about enhancements, scheduled maintenance, and other ACES-related issues.

*An **important** reminder for **Account Administrators**: since ACES can be accessed from any computer with Internet access, remember to **disable** your former employees' accounts! For detailed instructions, check your User Guide or call us at (888) CalPERS (225-7377).*

If you are not yet an ACES user, read on! ACES is your direct link for CalPERS health and retirement program transactions. It is easy to use — no paper forms, no mailroom costs, no waiting, and CalPERS has the most up-to-date records about your employees. When you hire new employees, or your current employees make life changes (e.g., move, get married or

have children), you simply enter the data into ACES and transmit it online to CalPERS. Even your payroll can be submitted through ACES. Best of all, it's free!

Now that you're convinced ACES will be a valuable tool for your organization, please visit our Web site at [www.calpers.ca.gov/ACES/](http://www.calpers.ca.gov/ACES/). Fill out the training form and security documents, and fax them to CalPERS at (916) 326-3005. We are offering training opportunities in Southern California during November 2003, January and February 2004, and in Northern California during December 2003. We hope to see you at one of our sessions! ■

## CalPERSeducational forum 2003

### "Connections"

By the time you receive this issue of the *Employer News*, we will be setting the stage and lighting the lights for our annual **CalPERS Educational Forum**. The Forum will be held on October 20–22 at the San Francisco Hilton.

This year's theme **Connections** was selected to remind us that we are all connected to our employees, our stakeholders and community, through the public services we provide. It is important we maintain these valuable relationships. By providing an annual educational forum for learning and information sharing, we are striving to enhance our relationship with you and strengthen the connection we share.

A sample of our diverse 3-day agenda includes the following workshops:

- The Dollars and Sense of CalPERS Public Agency Reporting
- Disease Management, What Your Health Plan is Doing For You
- New Issues Affecting Your Pension Cost
- State and Federal Legislation Update
- Connecting the Dots for New Employees

For complete **CalPERS Educational Forum 2003** information, visit the CalPERS Web site at [www.calpers.ca.gov](http://www.calpers.ca.gov). Questions may be addressed to [calpers\\_conference@calpers.ca.gov](mailto:calpers_conference@calpers.ca.gov), or the conference hotline at (916) 658-1264. ■

## Why Health Care Costs are Soaring— What CalPERS is Doing About It

The National Coalition on Health Care (NCHC) recently reported by 2006, family health care coverage in America's employer-sponsored plans will cost twice what it did in 2001.

NCHC projects the average family premium will be \$14,545 in 2006 — about \$1,200 per month. If CalPERS basic rates followed that national trend, family premiums would cost up to \$1,100 per month.

It is this scenario that prompted CalPERS to declare at an NCHC press conference last May that "America's health care system is on life support."

Less than a decade ago CalPERS once figured prominently in the managed care success story, when U.S. health care purchasers experienced only minimal rate increases. So what happened?

Here are some of the main factors behind rising rates:

- The cost restraints of managed care, including the willingness of plans to withhold or restrict access to medical services, were eroded by government mandates, court rulings, and consumer resistance.
- An aging population required more services from doctors, hospitals, and pharmaceutical providers. Since the CalPERS population generally is older and sicker, our costs rose even higher than others did.
- The incidents of chronic conditions such as depression, diabetes, and congestive

heart failure increased as enrollees have aged. Most of our future costs will be related to such conditions, which often stem from obesity and lifestyle.

- New and improved diagnostic and therapeutic treatments and brand name pharmaceuticals came to the market, often at a significant cost.
- Some hospital systems assembled networks that now dominate local markets, reducing price competition and raising rates that health plans must pass on to employers and members. California hospitals also face big bills for seismic safety work.
- Compensation to employees of hospitals and medical groups is increasing in response to the growing health care labor shortage.
- Federal Medicare reimbursements that were adequate in the '90s haven't kept pace with costs, which have been shifted to employers.
- The cost of health care for increasing numbers of uninsured and underinsured Californians eventually is being passed on to regular rate-paying employers and enrollees.

### CalPERS Seeks New Solutions for the Future

Since this crisis is nationwide in scope, it requires a national solution. CalPERS believes that all the players must come to the table, including health plans, providers, employers, labor unions, state and federal governments, and consumers.

While CalPERS is taking on a key role in the national policy debate on health care issues, we cannot afford to idly wait for solutions to emerge from Washington and Sacramento. Accordingly, our Board of Administration recently adopted a Strategic Plan (Plan) that takes our Health Program in a new direction for the rest of the decade. Our main goal is to get more value for the dollars we all spend.

The Plan also aims to improve the stability of your employees' benefits, to give them meaningful choices, and assure their ongoing access to high-quality, effective care and coverage.

Beginning in 2004, CalPERS is requiring health care partners to expand and improve disease management programs and provide incentives for doctors and hospitals to improve the quality of care. A multi-year contract with Blue Shield, our largest partner, will enable us to spread out costs more evenly over three years, and develop a stronger partnership to focus on care management ventures.

The managed care model of past years has addressed price; now it is time for care management that focuses on improved performance.

CalPERS is also collaborating with other big purchasers to share information, to gain more negotiating clout in the marketplace, and to explore the feasibility and cost effectiveness of joint purchasing with other states and private entities.

We intend to give your employees and other enrollees one-stop shopping to obtain comparative information about health plans, doctors, and hospitals; to make plan selections; budget for health care; and make decisions about clinical treatments that best meet their needs.

We're seeking solutions to other issues, including alternatives to health care delivery in rural areas and possible benefit design options and new products such as dental and vision plans for public agencies and schools.

These initiatives are taking your employees' Health Program on a new path in what the NCHC describes "a perfect storm" — the health care crisis that was produced by fundamental changes in California's managed care market, the historical inefficiencies of the health care delivery system, and the seemingly unlimited expectations of our aging population.

While the short-term story is about costs, we believe the bigger story is our new direction to:

- Identify some of the underlying cause of those costs;
- Join with others in altering some of the dynamics in the market; and
- Obtain better accountability and value from hospitals, doctors and pharmaceuticals, better performance from our health plan partners

This direction will enable your employees to be more effectively engaged as a health care decision-maker. ■

## CalPERS Healthcare 101— What You Should Know About Prescription Drugs

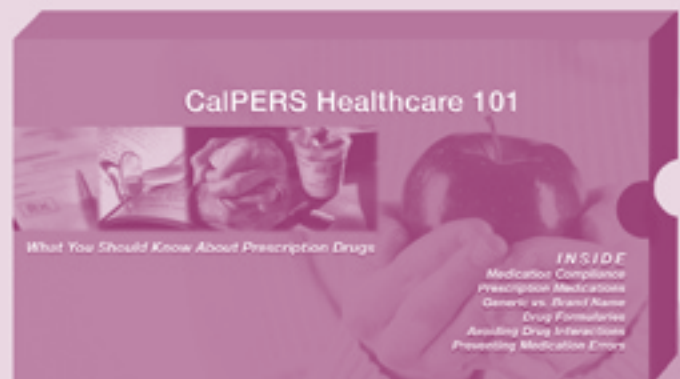
In the past few years, costs of health care have skyrocketed and have become a national crisis. CalPERS and our health care providers are looking for solutions. You can be part of the solution, by being proactive in your employees' health care and keeping them informed on health care issues.

We have partnered with California Health Decisions, an independent nonprofit organization, to develop our Healthcare 101 Campaign. As part of this campaign, we have produced a video that will educate your employees in how to use and manage their prescription drugs.

They'll find this video educational and informative, but not overwhelming. It will provide them with information on how to use prescription drugs, as prescribed by their physician — correctly. The video covers:

- Why it is important for your employees to know about their prescription drug, the conditions it is intended to treat, and the expected side effects.
- How to work with their physician so that they understand their treatment goals and can recommend the best options for them.
- A checklist to help your employees understand everything they need to know about their prescription drug.
- Generic vs. brand name drugs — is there a difference?
- What noncompliance means and how they may be putting their health at risk.

If your employees are interested in viewing our *What You Should Know About Prescription Drugs* video, they can order a FREE copy by visiting our Web site at **[www.calpers.ca.gov](http://www.calpers.ca.gov)** or they may request a copy by calling our toll free telephone number at **(888) CalPERS (225-7377)**. ■



## Need to Contact CalPERS?

### Call the Employer Contact Center: (888) CalPERS (225-7377)

This summer CalPERS successfully launched the new Employer Contact Center (ERCC). As a result, you now have a single point of contact for all of your CalPERS business needs.

Most employer assistance services have been centralized and consolidated into the new ERCC with specially trained employer customer service representatives to answer questions or to assist you with your CalPERS business transactions.

By providing a centralized first point of contact, CalPERS has been able to provide better, faster, and friendlier customer service.

CalPERS employers and members call the same toll free number (888) CalPERS (225-7377) for assistance with their retirement or health benefits. Upon calling, you will be greeted by an "Interactive Voice Response" (IVR) system.

The system will ask for you to identify yourself as an employer, which will assist in routing you to the ERCC. You will then be prompted for your CalPERS employer code. By providing this information, the IVR system will automatically populate (capture) unique information. After choosing a subject area in the main menu, you will be automatically routed to the appropriate customer service representative.

The new ERCC is making it simpler and easier for you to contact CalPERS for all of your business needs!

Here are a few quick tips to help you when contacting the ERCC:

- Avoid noisy environments and speaker phones;
- Know your Employer Code;
- Speak clearly;
- Answer only the questions that the system asks you; and
- At the main menu — if you already know the area you wish to reach, simply speak that selection at any time to avoid having to wait and listen to all the selections available. ■

## CalPERS Streamlines Health Enrollment

If you were pleased with the slimmer packet for last year's open enrollment, you will like what is in store for the 2003 enrollment.

For the first time, some 600,000 CalPERS families have received a simple personalized Annual Health Statement — no more wading through those bulky packets of booklets.

Employees won't receive the package unless they ask for it, in which case it will be mailed in time for them to make health plan changes during our annual open enrollment period from **October 1–31, 2003**.

The new CalPERS personalized Annual Health Statement shows your employees' name and only the last four numbers of their Social Security number. It identifies their health plan and dependents with their dates of birth and relationship to the subscriber. The Statement will also show their home or workplace zip codes to determine eligibility for coverage in a particular plan.

Your employees' Statement will summarize any plan and benefit changes for 2004 and will list plans and premiums.

Besides their personalized details, the Statement includes information about Medicare eligible enrollees, a schedule of important open enrollment dates, and a pre-paid postcard to request openenrollment materials.





## Events of Interest – October through December 2003

Date		Event	Location
October	10	Performance & Compensation Committee	CalPERS, Auditorium, Sacramento
	13	Holiday – Columbus Day	
	14	Investment Committee	CalPERS, Auditorium, Sacramento
	15	Health Benefits Committee Benefits and Program Administration Committee	CalPERS, Auditorium, Sacramento
	16	Board of Administration	CalPERS, Auditorium, Sacramento
	20–22	Educational Forum 2003	Hilton Hotel, San Francisco
	29	School Employer Advisory Committee	CalPERS Rooms 1170 / 1180
November	11	Holiday – Veterans' Day	
	14	Finance Committee Performance & Compensation Committee R Street Subcommittee	CalPERS, Auditorium, Sacramento
	17	Investment Committee	Southern California
	18	Health Benefits Committee Benefits and Program Administration Committee	Southern California
	19	Board of Administration	Southern California
	27–28	Holiday – Thanksgiving	
December	10	School Employer Advisory Committee	CalPERS Rooms 1170 / 1180
	12	Finance Committee Performance & Compensation Committee Investment Policy Subcommittee	CalPERS, Auditorium, Sacramento
	15	Investment Committee	CalPERS, Auditorium, Sacramento
	16	Health Benefits Committee Benefits and Program Administration Committee	CalPERS, Auditorium, Sacramento
	17	Board of Administration	CalPERS, Auditorium, Sacramento
	25	Holiday – Christmas Day	
<p><i>Note: Meeting times are announced, when they become available, through Circular Letters and on our Web site. Meetings are subject to change.</i></p> <p><i>CalPERS: 400 P Street, Sacramento.</i></p>			

## 2003 Annual Member Statements To Be Mailed Soon!

The CalPERS Annual Member Statement for June 30, 2003, will be mailed to our active and inactive members' home addresses in the first half of November or sent to you for work site distribution, if CalPERS does not have a current mailing address on file. The 2003 Member Statements include the member's total CalPERS account balances for contributions and service credit as of June 30, membership and benefit coverage data, and most members over age 45 will receive retirement pension estimates.

As in 2002, this year's Annual Member Statements will be mailed on a staggered schedule, based on member home ZIP codes according to the following schedule:

MAILING DATES	HOME ZIP CODES
<b>November 1, 2003</b>	<b>94708 and Above</b>
<b>November 8, 2003</b>	<b>92508 to 94708</b>
<b>November 15, 2003</b>	<b>Less than 92508</b>

The Statements for members without a deliverable mailing address on file with CalPERS will be forwarded on November 1, 2003, to you for work site distribution.

### UPDATING CalPERS MEMBER HOME MAILING ADDRESSES

CalPERS encourages all our members to visit and utilize the CalPERS Web site at **[www.calpers.ca.gov](http://www.calpers.ca.gov)** and obtain a PIN (Personal Identity Number) for our growing online services, including **online updating of your home mailing address** with CalPERS. You can also update your employees' home mailing address with CalPERS by submitting a form PERS-AESD-1 (Member Action Request) with the member address block updated or by using the Automated Communications Exchange System (ACES).

Please note that the 2003 CalPERS Annual Member Statement will **not** include a CalPERS change-of-address card.



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